Alaska
Roundtable Discussion—WSLFOA, Montana, September 2012

Alaska's savings accounts are enviable—we have about $60 billion set aside for the future. With a GF operating budget of about $6 billion annually, Alaska appears to be close to meeting a "retirement" objective of living off investment earnings.

But appearances are deceptive. The Permanent Fund, which contains about 2/3 of our savings, cannot be appropriated. That would not matter if the objective were to live off investment earnings, but the earnings are currently off-limits as well. They are used to pay dividends to Alaska residents and to build the fund balance ever larger via inflation proofing.

The remaining 1/3 of reserves are sufficiently large to give a misleading suggestion of fiscal health. Alaska's fiscal health is surprisingly fragile:

1. Oil revenue is volatile—each dollar change in price per barrel results in a revenue change of more than $120 million—and projected surpluses can become deficits very quickly.
2. Oil production is more important than price in the long-run, and production declines of about five percent annually will inevitably reduce revenue.
3. Meanwhile, GF spending has been growing by about 8% annually. A continuation of current trends will exhaust non-Permanent Fund reserves before FY25.
4. Revenue from natural gas is at least ten years out, and there is pressure from the Governor to reduce oil revenue via lower taxes.

Solutions—meaning actions that would help avoid future deficits—have proved unpalatable to legislators (and probably to citizens). The likely course of action is to practice mild fiscal restraint that will not be recognized as "too little, too late" until multi-billion dollar deficits force drastic action.